106th Congress 1st Session	JOINT COMMITTEE PRINT	S. PRT. 100-22

AN ANALYSIS OF THE CURRENT SERVICES BUDGET CONTAINED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1988

SUBMITTED TO

THE SENATE AND HOUSE COMMITTEES ON THE BUDGET

PREPARED BY THE STAFF OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

IN ACCORDANCE WITH THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, AS AMENDED (31 U.S.C. 1109(b))

MARCH 4, 1987

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

70-407 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Goverment Printing Office, Washington, DC 20402

J842-4

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[Created pursuant to sec. 5(a) of Public Law 304, 79th Congress]

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AN ANALYSIS OF THE CURRENT SERVICES BUDGET CONTAINED IN THE PRESIDENT'S BUGET FOR FISCAL YEAR 1988 [1]

The Congressional Budget and Impoundment Control Act of 1974, as amended, requires the President to submit a current services budget to Congress. This budget, published as Special Analysis A, is intended to present the level of outlays and budget authority "for the following fiscal year if programs and activities of the United States Government were carried on during that year at the same level as the current fiscal year without a change in policy." Such benchmark estimates and the corresponding current services receipts estimates are to be accompanied by "the economic and program assumptions on which those budget outlays are based, including inflation, real economic growth, and unemployment rates, program caseloads, and pay increases." The Budget Act also requires the Joint Economic Committee to review the estimated budget outlays and proposed budget authority and submit an evaluation to the Committees on the Budget of both Houses.

Since 1983, the Joint Economic Committee has been concerned that the current services budget has not played the role envisaged because the Office of Management and Budget (OMB) did not appear to be following the intent of the Budget Act. Thus in May 1985 the Committee asked the General Accounting Office (GAO) to conduct a thorough review of the procedures used by OMB in compiling the current services budget. The GAO report (copy enclosed) was released in December 1986.[2]

GAO Report

The GAO study found that the original goals of the current services budget remain valid, but it confirmed the Committee's concern that distortions have arisen, especially in the area of defense. The GAO report found that since January 1983 spending increases regularly have been converted into alleged spending reductions or freezes by the utilization of artificially high baselines.

According to the GAO report:

(1) In the last five years, OMB has made "major exceptions to its general current services concept for certain agencies and programs." These exceptions "permit new presidential or congressional initiatives that are not yet, and may never be, enacted into law to affect the estimates."

(2) OMB's use of exceptions to its own guidelines "can result in a current services budget developed to support the President's pro-

[1] All years referred to are fiscal years.

[2] "The President's Current Services Budget," Report to the Chairman, Joint Economic Committee, GAO Report AFMD-87-10, December 2, 1986.

posed policies rather than to highlight the fiscal effects of proposed policy changes."

(3) OMB's "use of different policy definitions for different programs lessens the usefulness of the current services budget as a budget tool."

GAO confirmed earlier concerns that the statutory definition of "current services estimates" contained in the Budget Act was not very detailed. Indeed, OMB had addressed this problem shortly after the passage of the Budget Act, developing detailed instructions to the agencies for use in preparing their current services estimates. These instructions resolved many of the ambiguities present in the Act and were incorporated into OMB Circular A-11, "Preparation and Submission of Budget Estimates." In commenting on the recent GAO study, OMB attempted to justify its actions of the last few years, which have weakened the current services budget procedures, by citing the ambiguities in the Act. This claim appears unwarranted, however, because Circular A-11 had earlier resolved these ambiguities and served as the basis for the current services budgets submitted prior to 1983.

Defense Budget

The guidelines in OMB's Circular A-11 were followed in developing the current services estimates for defense in the budgets for fiscal years before 1984 (i.e., those submitted prior to January 1983). In January 1983, however, the Administration abandoned these guidelines in the defense area, and since then it has used the current services budget in such a way as to confuse, rather than clarify, the defense budget. For example, it appears that there was a major cutback in the Administration's proposed military buildup between 1983 and 1985--from an increase relative to current services of $29.5 billion in 1983, to a cutback relative to current services of $16.3 billion in 1985. This impression is highly erroneous. Proposed budget authority rose by 18 percent over this two year period, but because the current services budget for defense rose even faster, by 41 percent, the large proposed buildup appears to be a sizable cutback. As GAO points out, under the new procedure, OMB "gave the impression it was proposing to cut the Department of Defense—Military (DOD-M) budget." In fact it was advocating sizable increases in military spending (see Table 1).[3]

Prior to January 1983, current services estimates for defense were based on the previous year's appropriation level adjusted for inflation only; the estimates did not include real growth. In the 1984 budget, submitted in January 1983, OMB departed from this established procedure, and the current services estimates were the same as the amounts proposed for 1984 by the Administration in the budget submitted in 1982, even though not all of this defense request was enacted by Congress. This baseline included both an adjustment for inflation and an amount for real growth. Similarly, the 1985 current services budget for defense was based on the July 1983 mid-session review of the 1984 budget.

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[3] A current services budget was not submitted for 1976. For 1977 and 1978, the current services budget was submitted several months prior to the President's budget, and was based on different economic assumptions, thus it was not readily comparable to the President's budget.

The 1986 current services defense budget, submitted in February 1985, was also based on the previous year's mid-session budget review, adjusted for the "Rose Garden Downpayment Plan." [4] Over the four years from 1986 through 1989, the President's budget called for an average rate of real growth in defense budget authority of 7.7 percent per year, yet the Administration portrayed this as a *reduction* below the current services baseline totaling $41.3 billion. According to GAO's estimates, based on OMB's methodology prior to January 1983, the Administration was requesting an *increase* totaling $214.0 billion over the four years. Thus the discrepancy between the baseline estimated by OMB and by GAO was $255.3 billion for four years, an average difference of $63.8 billion per year.

TABLE 1. –DEPARTMENT OF DEFENSE—MILITARY BUDGET AUTHORITY

[Dollar amounts in billions]

Fiscal year	Date budget issued	Administration proposal	Current services estimate	Apparent increase or decrease (–) from current services
1979	January 1978	$125.6	$123.7	$1.9
1980	January 1979	135.0	132.1	2.9
1981	January 1980	158.2	150.8	7.4
1982	January 1981	195.7	187.8	7.8
1983	January 1982	257.5	227.9	29.5
1984	January 1983	273.4	284.7	–11.3
1985	February 1984	305.0	321.3	–16.3
1986	February 1985	313.7	324.8	–11.1
1987	February 1986	311.6	314.7	–3.1
1988	January 1987	303.3	303.3	.0

OMB has even discarded DOD estimates based on OMB's own guidelines. For fiscal year 1987, the Department of Defense (DOD) calculated a current services baseline for Department of Defense—military budget authority in accordance with OMB Circular A–11. The DOD baseline adjusted the base year's defense appropriation for inflation, and incorporated the effects of the Gramm-Rudman sequestration on the 1986 budget. It showed that current services defense budget authority for 1987–1991 would be $1,572.6 billion, and that the Administration's request represented an *increase* of $195.1 billion over this baseline. OMB then rejected the DOD current services estimates, even though they were based on OMB's guidelines, and replaced them with much higher figures, which indicated that the Administration was proposing to *reduce* DOD budget authority by $45.4 billion over this period.

The 1988 Current Services Budget for Defense

This year OMB has resorted to still another approach to the current services budget for defense, arbitrarily setting the current services baseline at the same level as the President's request. It has never done this in the past. OMB thereby alleges that the Ad-

[4] The Rose Garden Downpayment Plan was a March 1984 deficit reduction agreement between the President and Republican Senate leaders to increase taxes and reduce the President's proposed level of military and domestic spending.

ministration's proposals represent neither an increase nor a decrease from the current services budget. Further, OMB told the Department of Defense not to prepare current services estimates, in apparent violation of its own Circular A-11. Thus once again the special treatment accorded the defense program has meant that the current services budget has failed to fulfill its intended purpose.

An alternative approach which provides a better estimate of the proposed increase in defense spending is provided by comparing the Congressional Budget Office (CBO) baseline and the CBO reestimate of the Administration's budget. As shown in Table 2, the CBO analysis indicates that OMB has requested an increase in total defense budget authority of $113.4 billion for the 1988-1992 years, an average of $22.7 billion per year.

TABLE 2.—DEFENSE BUDGET AUTHORITY

[Dollar amounts in billions]

Fiscal year	OMB estimates			CBO estimates		
	Administration request	Current services	Differences	Administration request	Baseline	Difference
1988	$312.0	$312.0	0	$311.8	$302	$9.8
1989	332.4	332.4	0	332.0	316	16.0
1990	353.5	353.5	0	353.0	330	23.0
1991	375.0	375.0	0	374.4	345	29.4
1992	396.9	396.9	0	396.2	361	35.2
Total	1769.8	1769.8	0	1,767.4	1,654	113.4

Sources: Office of Management and Budget and Congressional Budget Office.

Other Issues in the 1988 Current Services Budget

Two other points deserve mention with regard to the latest current services estimates. First, since the preparation of the budget, the Administration has officially revised its forecast for the growth rate in 1987 (on a calendar year basis) downward from 3.1 percent to 2.7 percent.[5] This change, due to an overly optimistic estimate of growth in the fourth quarter of 1986, means that the estimates of the deficit in both the current services budget and the President's budget are too low.

Second, the current services estimate for the Federal civilian pay raise on January 1, 1988, is 2.0 percent, the same as the President's proposal. In its comments on the GAO report, OMB stated that in the past it has based its current services payroll estimates on the assumption that Federal civilian employees would receive a pay raise equal to the average private-sector pay increase. This approach has been abandoned without explanation this year. The Administration has not explicitly forecast the increase in private-sector pay, but presumably it expects this to be greater than the increase in the cost of living, estimated as 3.6 percent for 1988. The point is that an appropriate baseline would show that the Adminis-

[5] A further revision downward to 2.6 percent is likely in light of the February 19 revision in the growth rate of real GNP last quarter. Also, growth in 1986, estimated at 2.7 percent in the budget, is now reported as 2.5 percent.

tration is proposing to *reduce* Federal civilian pay in 1988 by at least 1.7 percent, not maintain it at current service levels.

The Future of the Current Services Budget

In their report, GAO concluded that, because of the distortions introduced by OMB, Congress should either amend the Budget Act to tighten up the definition of current services or, alternatively, eliminate the current services budget altogether:

> On the basis of our review results, the Congress should consider eliminating the requirement that the President submit a current services budget.
>
> If the requirement for a current services budget is retained, we recommend that the Congress amend the Budget Act to specifically define the set of policies to be assumed in developing the current services estimates. While judgment is always required in making budget estimates, the use of a defined set of policies would ensure a common understanding between the Congress and OMB as to what the current services budget represents, making it a more useful budgetary tool.
>
> For the current services budget to best serve the purpose of providing a baseline for highlighting the fiscal effects of policy changes proposed in the President's budget, the policy used to develop it should be the most current policy reflected in law. Current policy needs to be specifically defined at a sufficient level of detail to ensure that OMB provides the type of information that would be useful to the Congress as a baseline.

The Joint Economic Committee finds the GAO report a useful review of the central issues arising with regard to the current services budget, and recommends that it receive careful scrutiny. The Committee believes, however, that there is a third alternative not mentioned explicitly in the conclusion of the GAO study, i.e., adherence in preparing the current services budget to the procedures set forth in Circular A-11, which remains in force although it has been disregarded in the defense area by OMB since 1983. A current services budget consistent with the A-11 guidelines would provide a better framework for analyzing the President's budget proposals. The resulting estimates would be more in compliance with the intent of the Budget Act.

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